

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CALEDONIA TOWNSHIP</b>	County <b>ALCONA</b>
Audit Date <b>03/31/2004</b>	Opinion Date <b>06/02/2004</b>	Date Accountant Report Submitted to State: <b>08/16/2004</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

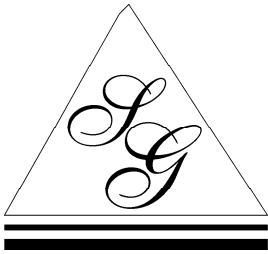
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>STEPHENSON, GRACIK &amp; CO., P.C.</b>			
Street Address <b>325 NEWMAN STREET, PO BOX 592</b>	City <b>EAST TAWAS</b>	State <b>MI</b>	ZIP <b>48730</b>
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.08.12 09:28:29 -0500 Reason: I am approving this document	



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA  
-----  
Herman A Bertuleit, CPA

TOWNSHIP OF CALEDONIA  
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED MARCH 31, 2004

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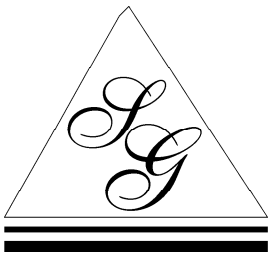
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# *Stephenson Gracik & Co., P.C.*

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Alan J Stephenson, CPA  
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-----  
Herman A Bertuleit, CPA

June 2, 2004

## Independent Auditors' Report

Members of the Township Board  
Township of Caledonia  
Alcona County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Caledonia, Alcona County, Michigan, as of and for the year ended March 31, 2004, as listed in the index. These general purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Township of Caledonia, Alcona County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2004, on our consideration of the Township of Caledonia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Stephenson, Gracik & Co., P.C.*

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

COMBINED BALANCE SHEET -  
ALL FUND TYPES AND ACCOUNT GROUPS  
March 31, 2004

	Governmental Fund Types			Fiduciary Fund Type	Account Group	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Trust and Agency	General Fixed Assets	
<u>ASSETS</u>						
Cash (Note 2)	\$ 231,339	\$ 215,096	\$ 0	\$ 287,342	\$ 0	\$ 733,777
Taxes receivable	4,299	15,075	0	0	0	19,374
Due from other funds (Note 4)	69,124	218,218	0	0	0	287,342
Property, plant and equipment (Note 5)						
Land and improvements	0	0	0	0	192,962	192,962
Buildings and improvements	0	0	0	0	114,615	114,615
Equipment and fixtures	0	0	0	0	262,045	262,045
Total Assets	<u>\$ 304,762</u>	<u>\$ 448,389</u>	<u>\$ 0</u>	<u>\$ 287,342</u>	<u>\$ 569,622</u>	<u>\$ 1,610,115</u>
<u>LIABILITIES AND FUND EQUITY</u>						
<u>Liabilities</u>						
Due to other funds (Note 4)	\$ 0	\$ 0	\$ 0	\$ 287,342	\$ 0	\$ 287,342
Due to other units	2,388	0	0	0	0	2,388
Total liabilities	<u>2,388</u>	<u>0</u>	<u>0</u>	<u>287,342</u>	<u>0</u>	<u>289,730</u>
<u>Fund Equity</u>						
Investment in general fixed assets	0	0	0	0	569,622	569,622
Fund Balances:						
Unreserved:						
Undesignated	302,374	448,389	0	0	0	750,763
Total fund equity	<u>302,374</u>	<u>448,389</u>	<u>0</u>	<u>0</u>	<u>569,622</u>	<u>1,320,385</u>
Total Liabilities and Fund Equity	<u>\$ 304,762</u>	<u>\$ 448,389</u>	<u>\$ 0</u>	<u>\$ 287,342</u>	<u>\$ 569,622</u>	<u>\$ 1,610,115</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
For the Year Ended March 31, 2004

	General	Special Revenue	Debt Service	Totals (Memorandum Only)
<u>Revenue</u>				
Taxes	\$ 79,727	\$ 233,310	\$ 0	\$ 313,037
Licenses and permits	1,570	0	0	1,570
State revenue	83,556	0	0	83,556
Charges for services	4,120	0	0	4,120
Interest and rentals	4,293	3,275	0	7,568
Other revenue	170	0	0	170
Total revenue	<u>173,436</u>	<u>236,585</u>	<u>0</u>	<u>410,021</u>
<u>Expenditures</u>				
Current:				
General government	81,803	0	0	81,803
Public safety	1,873	40,510	0	42,383
Public works	1,376	88,256	0	89,632
Recreation and cultural	5,359	0	0	5,359
Other	24,864	0	0	24,864
Capital outlay	12,685	0	0	12,685
Debt Service:				
Principal retirement	0	0	2,958	2,958
Interest	0	0	164	164
Fiscal charges	0	0	156	156
Total expenditures	<u>127,960</u>	<u>128,766</u>	<u>3,278</u>	<u>260,004</u>
Excess of revenue over (under) expenditures	<u>45,476</u>	<u>107,819</u>	<u>(3,278)</u>	<u>150,017</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	0	3,278	3,278
Operating transfers out	<u>(3,278)</u>	<u>0</u>	<u>0</u>	<u>(3,278)</u>
Total other financing sources (uses)	<u>(3,278)</u>	<u>0</u>	<u>3,278</u>	<u>0</u>
Excess of revenue and other sources over expenditures and other uses	42,198	107,819	0	150,017
Fund balances - beginning of year	<u>260,176</u>	<u>340,570</u>	<u>0</u>	<u>600,746</u>
Fund balances - end of year	<u>\$ 302,374</u>	<u>\$ 448,389</u>	<u>\$ 0</u>	<u>\$ 750,763</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS  
For the Year Ended March 31, 2004

	General			Special Revenue			Totals (Memorandum Only)		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<b>Revenue</b>									
Taxes	\$ 78,934	\$ 79,727	\$ 793	\$ 221,653	\$ 233,310	\$ 11,657	\$ 300,587	\$ 313,037	\$ 12,450
Licenses and permits	2,300	1,570	(730)	0	0	0	2,300	1,570	(730)
State revenue	85,800	83,556	(2,244)	0	0	0	85,800	83,556	(2,244)
Charges for services	2,700	4,120	1,420	0	0	0	2,700	4,120	1,420
Interest and rentals	4,000	4,293	293	3,600	3,275	(325)	7,600	7,568	(32)
Other revenue	300	170	(130)	0	0	0	300	170	(130)
Total revenue	<u>174,034</u>	<u>173,436</u>	<u>(598)</u>	<u>225,253</u>	<u>236,585</u>	<u>11,332</u>	<u>399,287</u>	<u>410,021</u>	<u>10,734</u>
<b>Expenditures</b>									
Current:									
General government	93,797	81,803	11,994	0	0	0	93,797	81,803	11,994
Public safety	3,800	1,873	1,927	41,510	40,510	1,000	45,310	42,383	2,927
Public works	2,000	1,376	624	106,373	88,256	18,117	108,373	89,632	18,741
Recreation and cultural	11,040	5,359	5,681	0	0	0	11,040	5,359	5,681
Other	31,506	24,864	6,642	0	0	0	31,506	24,864	6,642
Capital outlay	<u>42,800</u>	<u>12,685</u>	<u>30,115</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>42,800</u>	<u>12,685</u>	<u>30,115</u>
Total expenditures	<u>184,943</u>	<u>127,960</u>	<u>56,983</u>	<u>147,883</u>	<u>128,766</u>	<u>19,117</u>	<u>332,826</u>	<u>256,726</u>	<u>76,100</u>
Excess of revenue over (under) expenditures	(10,909)	45,476	56,385	77,370	107,819	30,449	66,461	153,295	86,834
<b>Other Financing Uses</b>									
Operating transfers out	<u>(3,125)</u>	<u>(3,278)</u>	<u>(153)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,125)</u>	<u>(3,278)</u>	<u>(153)</u>
Excess of revenue over (under) expenditures and other uses	(14,034)	42,198	56,232	77,370	107,819	30,449	63,336	150,017	86,681
Fund balances - beginning of year	<u>260,176</u>	<u>260,176</u>	<u>0</u>	<u>340,570</u>	<u>340,570</u>	<u>0</u>	<u>600,746</u>	<u>600,746</u>	<u>0</u>
Fund balances - end of year	<u>\$ 246,142</u>	<u>\$ 302,374</u>	<u>\$ 56,232</u>	<u>\$ 417,940</u>	<u>\$ 448,389</u>	<u>\$ 30,449</u>	<u>\$ 664,082</u>	<u>\$ 750,763</u>	<u>\$ 86,681</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan  
  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Township of Caledonia operates under an elected Township Board (five members) and provides services to its residents in many areas, including road maintenance and fire protection.

The financial statements of the Township are prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Basis of Presentation

The financial activities of the Township of Caledonia are recorded in separate funds and account groups, categorized and described as follows:

1. Governmental Funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state distributions, grants and other intergovernmental revenue.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Fund - This fund is used to record the funding and payment of principal and interest on debt reported in the General Long-term Debt Account Group.

2. Fiduciary Fund:

This fund is used to account for assets held in trust or as an agent for others, and consists of the Current Tax Collection Fund.

3. Account Group:

General Fixed Asset Account Group - This account group presents the fixed assets of the local unit utilized in its general operations.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Revenues – Exchange and Non-exchange Transactions:



TOWNSHIP OF CALEDONIA  
Alcona County, Michigan  
  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

The financial activity of the Agency Fund is limited to collection of amounts which are subsequently returned or paid to third parties and, accordingly, is limited to cash transactions .

The accounts of the Township are maintained on the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

1. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

For the current year, the taxable value for properties located within the Township was \$94,179,990 . The tax rate was .4872 mills for operations, 1.4752 mills for roads and 1.0000 mills for fire protection.

2. Revenue from the sale of Township services and assessments is recorded when billed. All other revenue is recognized when collected in cash.
3. Payrolls and other costs are recognized as incurred.
4. Payments for inventorable types of supplies are recorded as expenditures at the time of purchase.
5. Normally, expenditures are not divided between years by the recording of prepaid expenses.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

E. Elements of the Significant Accounting Policies

Inventories:

Inventories have not been recognized in the financial statements as they are not material and have been expensed when purchased.

Fixed Assets:

General fixed assets are recorded as expenditures at the time of purchase. The assets are then recorded in the fixed asset group of accounts to maintain their identity and related costs. Because original purchase documents were not available for the land and some building costs, the original cost of such assets has been estimated on the basis of such documentary evidence that was available including price levels at the time of acquisition.

Budgets and Budgetary Accounting:

The Township normally follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Township clerk submits a proposed operating budget to the Township Board which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted or as amended by the Township Board.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Township Board.

Interfund Receivables and Payables:

Interfund receivables and payables have not been eliminated in the preparation of the Combined Balance Sheet (Exhibit A). Operating transfers in and out have not been offset in the presentation of the Combined Statements of Revenue and Expenditures (Exhibits B and C).

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan  
  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 2 - DEPOSITS AND INVESTMENTS

The captions on the financial statements for the deposit accounts are as follows:

	<u>Deposits</u>
Cash	<u>\$ 733,777</u>

Deposits:

Deposits are carried at cost. Deposits of the Township are held at various banks in the name of the Township. At March 31, 2004 the carrying amounts of the Township's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 200,228	\$ 247,027
Uninsured - uncollateralized	<u>533,549</u>	<u>533,551</u>
	<u>\$ 733,777</u>	<u>\$ 780,578</u>

Investments:

The Township Board has adopted an investment policy in accordance with Act 196 PA 1997 which authorizes the Township to deposit and invest in the following:

- \* Accounts of federally insured banks, credit unions and savings and loan associations
- \* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- \* United States government or federal agency obligation repurchase agreements
- \* Banker's acceptances of United States banks
- \* Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- \* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits are in accordance with statutory authority.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan  
  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 3 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Agency for all benefits charged against the Township. No liabilities were due as of March 31, 2004.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of March 31, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 69,124	Current tax collection	\$ 69,124
Road	130,052	Current tax collection	130,052
Fire equipment	<u>88,166</u>	Current tax collection	<u>88,166</u>
Total	<u>\$ 287,342</u>	Total	<u>\$ 287,342</u>

NOTE 5 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balance 4/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land and improvements	\$ 190,462	\$ 2,500	\$ 0	\$ 192,962
Buildings and improvements	114,615	0	0	114,615
Equipment and fixtures	<u>251,860</u>	<u>10,185</u>	<u>0</u>	<u>262,045</u>
Totals	<u>\$ 556,937</u>	<u>\$ 12,685</u>	<u>\$ 0</u>	<u>\$ 569,622</u>

NOTE 6 - LEASE COMMITMENT

The Township entered into an operating lease dated September 12, 2001 with Abbott Rentals for the east and southeast portions of the building located at 1499 W. Hurbert Road, Hubbard Lake, Michigan, for public library use. The lease is payable at \$270 per month for a term of four years. For the years ended March 31, 2004, rent expenditures were \$3,240.

NOTE 7 - PENSION PLAN

The Township has a non-standardized money purchase pension plan with Travelers Life Insurance Company effective April 1, 1991. All full-time employees are covered under the plan. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, have attained age 18. Vesting is 100% upon entering the plan.

Each employee must contribute 7.5% of their gross earnings to the plan. The Township is required to contribute an amount equal to 7.5% of the employee's gross earnings.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 7 - PENSION PLAN (CONTINUED)

During the year, the Township's contributions amounted to \$4,991, which was 7.5% of its current year covered payroll. Employees' contributions also amounted to \$4,991. No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

NOTE 8 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the functional level.

During the year ended March 31, 2004, the Township incurred expenditures in the General Fund which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Operating transfers out	\$ 3,125	\$ 3,278	\$ 153

NOTE 9 - OPERATING TRANSFERS

Operating transfers in/out to other funds consist of the following:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
Debt Service Fund	<u>\$ 3,278</u>	General Fund	<u>\$ 3,278</u>

Transfers were used to move revenues from the fund that collected them to the fund that statute or budget requires to expend them.

NOTE 10 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township continues to carry commercial insurance for risks of loss. Settlement claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended March 31, 2004

NOTE 11 - TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 12 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Township is required to implement this standard for the fiscal year ending March 31, 2005. The Township has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

#### OTHER DATA

REPORT ON OTHER DATA

June 2, 2004

Our audit was conducted for the purpose of forming an opinion on the March 31, 2004 general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules, EXHIBITS E through I, are presented for purposes of additional analysis and are not a required part of the 2004 general purpose financial statements of the Township of Caledonia, Alcona County, Michigan. The information has been subjected to the auditing procedures applied in the audit of the 2004 general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2004 general purpose financial statements taken as a whole.

*Stephenson, Grain & Co., P.C.*



TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

GENERAL FUND  
 STATEMENT OF REVENUE - BUDGET AND ACTUAL  
For the Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	Variance - Favorable (Unfavorable)
<u>Taxes</u>			
Current property taxes	\$ 44,596	\$ 45,889	\$ 1,293
Collection fees	31,238	33,084	1,846
Penalties and interest on delinquent taxes	3,100	754	(2,346)
	<u>78,934</u>	<u>79,727</u>	<u>793</u>
Licenses and permits	<u>2,300</u>	<u>1,570</u>	<u>(730)</u>
<u>State Revenue</u>			
State revenue sharing	84,000	81,803	(2,197)
Liquor licenses	1,800	1,753	(47)
	<u>85,800</u>	<u>83,556</u>	<u>(2,244)</u>
<u>Charges for Services</u>			
Sale of cemetery lots	1,200	3,400	2,200
Hall cleaning	1,000	720	(280)
Contracted services	500	0	(500)
	<u>2,700</u>	<u>4,120</u>	<u>1,420</u>
<u>Interest and Rents</u>			
Interest earned	2,800	2,868	68
Rents	1,200	1,425	225
	<u>4,000</u>	<u>4,293</u>	<u>293</u>
<u>Other Revenue</u>			
Miscellaneous	<u>300</u>	<u>170</u>	<u>(130)</u>
Total Revenue	\$ <u>174,034</u>	\$ <u>173,436</u>	\$ <u>(598)</u>

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

GENERAL FUND  
 STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
For the Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>General Government</u>			
Township board	\$ 11,000	\$ 8,848	\$ 2,152
Supervisor	8,818	8,349	469
Elections	1,900	985	915
Legal and audit	5,000	2,685	2,315
Assessor	17,632	15,525	2,107
Clerk	13,160	12,662	498
Treasurer	17,730	15,813	1,917
Board of review	1,500	1,200	300
Township hall	16,232	15,423	809
Cemetery	825	313	512
	<u>93,797</u>	<u>81,803</u>	<u>11,994</u>
<u>Public Safety</u>			
Zoning Administration	1,450	172	1,278
Liquor law enforcement	2,350	1,701	649
	<u>3,800</u>	<u>1,873</u>	<u>1,927</u>
<u>Public Works</u>			
Streets and sidewalks	2,000	1,376	624
<u>Recreation and Cultural</u>			
Parks and recreation	6,800	1,281	5,519
Library	4,240	4,078	162
	<u>11,040</u>	<u>5,359</u>	<u>5,681</u>
<u>Other Functions</u>			
Planning commission	10,014	6,260	3,754
Insurance and bonds	6,800	6,926	(126)
Employee benefits	6,300	5,766	534
Land use	6,392	5,912	480
Contingency	2,000	0	2,000
	<u>31,506</u>	<u>24,864</u>	<u>6,642</u>
Capital Outlay	42,800	12,685	30,115
Total Expenditures	184,943	127,960	56,983
<u>Other Financing Uses</u>			
Operating transfers out	3,125	3,278	(153)
Total Expenditures and Other Financing Uses	\$ <u>188,068</u>	\$ <u>131,238</u>	\$ <u>56,830</u>

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

ALL SPECIAL REVENUE FUNDS  
 COMBINING BALANCE SHEET  
March 31, 2004

	<u>Road Fund</u>	<u>Fire Equipment Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 77,763	\$ 137,333	\$ 215,096
Taxes receivable	8,986	6,089	15,075
Due from other funds	<u>130,052</u>	<u>88,166</u>	<u>218,218</u>
Total Assets	\$ <u>216,801</u>	\$ <u>231,588</u>	\$ <u>448,389</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities	\$ 0	\$ 0	\$ 0
<u>Fund Equity</u>			
Fund Balances:			
Unreserved:			
Undesignated	<u>216,801</u>	<u>231,588</u>	<u>448,389</u>
Total Liabilities and Fund Equity	\$ <u>216,801</u>	\$ <u>231,588</u>	\$ <u>448,389</u>

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

ALL SPECIAL REVENUE FUNDS  
 COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
For the Year Ended March 31, 2004

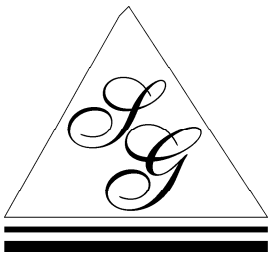
	<u>Road Fund</u>	<u>Fire Equipment Fund</u>	<u>Total</u>
<u>Revenue</u>			
Current property taxes	\$ 139,048	\$ 94,262	\$ 233,310
Interest earned	<u>1,221</u>	<u>2,054</u>	<u>3,275</u>
Total revenue	<u>140,269</u>	<u>96,316</u>	<u>236,585</u>
<u>Expenditures</u>			
Public works	88,256	0	88,256
Public safety	<u>0</u>	<u>40,510</u>	<u>40,510</u>
Total expenditures	<u>88,256</u>	<u>40,510</u>	<u>128,766</u>
Excess of revenue over expenditures	52,013	55,806	107,819
Fund balances - beginning of year	<u>164,788</u>	<u>175,782</u>	<u>340,570</u>
Fund balances - end of year	<u>\$ 216,801</u>	<u>\$ 231,588</u>	<u>\$ 448,389</u>

TOWNSHIP OF CALEDONIA  
Alcona County, Michigan

ALL TRUST AND AGENCY FUNDS  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
For the Year Ended March 31, 2004

CURRENT TAX COLLECTION FUND

	Balance April 1, 2003	Additions	Deductions	Balance March 31, 2004
<u>Assets</u>				
Cash	\$ <u>270,682</u>	\$ <u>2,625,018</u>	\$ <u>2,608,358</u>	\$ <u>287,342</u>
<u>Liabilities</u>				
Due to other funds	\$ 270,682	\$ 287,187	\$ 270,527	\$ 287,342
Due to county	0	998,982	998,982	0
Due to schools	<u>0</u>	<u>1,338,849</u>	<u>1,338,849</u>	<u>0</u>
Total Liabilities	\$ <u>270,682</u>	\$ <u>2,625,018</u>	\$ <u>2,608,358</u>	\$ <u>287,342</u>



*Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J Stephenson, CPA  
Gerald D Gracik Jr., CPA  
James J Gracik, CPA  
E. Thad Gray, CPA  
Donald W. Brannan, CPA  
Kyle E Troyer, CPA  
-----  
Herman A Bertuleit, CPA

June 2, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Township Board  
Township of Caledonia  
Alcona County, Michigan

We have audited the general purpose financial statements of the Township of Caledonia as of and for the year ended March 31, 2004, and have issued our report thereon dated June 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

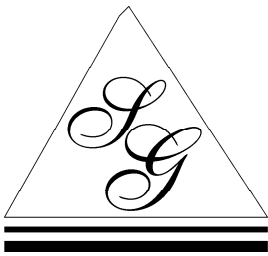
As part of obtaining reasonable assurance about whether the Township of Caledonia's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Township of Caledonia in a separate letter dated June 2, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Caledonia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Gracik & Co., P.C.*



# *Stephenson Gracik & Co., P.C.*

Certified Public Accountants & Consultants

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-----  
Herman A Bertuleit, CPA

June 2, 2004

Members of the Board  
Township of Caledonia  
Alcona County, Michigan

Dear Board Members:

We have audited the general purpose financial statements of the Township of Caledonia for the year ended March 31, 2004, and have issued our report thereon dated June 2, 2004. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated February 18, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the Township of Caledonia's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Township of Caledonia's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

## Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Caledonia are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Township of Caledonia during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

## Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township of Caledonia's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township of Caledonia, either individually or in the aggregate, indicate matters that could have a significant effect on the Township of Caledonia's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Caledonia's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations.

Budget Control

We noted that the Township's General Fund included expenditures in certain functions that exceeded appropriated amounts. We recommend that the Township Board continue to amend the budgets for all funds as needed.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Township.

This information is intended solely for the use of management, Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Stephenson, Grunh & Co., P.C.*